Balancing Rewards: The Comparative Impact of Financial and Non-Financial Compensation on Employee Performance

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Abstract

This research examines the impact of financial and non-financial compensation schemes on employee performance using literature review. Financial compensation, including salaries, bonuses, and allowances, is consistently associated with short-term productivity, employee retention, and fulfillment of basic economic needs. By contrast, non-financial compensation—such as recognition, career growth opportunities, supportive leadership, and a positive organizational climate—proves to be more effective in sustaining long-term engagement and intrinsic motivation. Comparative evidence suggests that financial rewards serve as foundational drivers of fairness and security, while non-financial rewards enhance discretionary effort and deeper commitment once financial adequacy is achieved. The findings indicate that neither scheme is inherently superior; instead, the integration of both within a total rewards framework yields the most effective outcomes. Managerial implications underscore the need for organizations to maintain competitive financial packages while investing in non-financial strategies tailored to workforce demographics and cultural contexts. Overall, this study highlights that a balanced and context-sensitive compensation approach is critical for optimizing employee performance and sustaining organizational competitiveness.

INTRODUCTION

Performance evaluation has long been a central theme in the field of human resource management (HRM). An effective performance appraisal system is not merely an administrative mechanism to measure the achievements of employees, but also serves as a strategic tool to align individual goals with organizational vision, mission, and objectives (Noe et al., 2014; Otley, 1999). By systematically evaluating performance, organizations can identify discrepancies between expected and actual performance, implement corrective actions, and ensure continuous improvement in organizational effectiveness. This perspective emphasizes that performance evaluation is not an isolated activity, but rather a fundamental component of the strategic management process that fosters accountability, communication, and organizational learning (Ittner et al., 2003).

Beyond its technical function, performance appraisal also plays a critical role in shaping a conducive work environment. Constructive feedback derived from appraisal systems enables employees to understand organizational expectations, develop their competencies, and enhance their motivation. From a managerial standpoint, involving employees in performance discussions helps cultivate a sense of ownership and commitment toward organizational objectives (Yuliansyah et al., 2016; Yuliansyah & Khan, 2015). Such engagement reflects the recognition that employees are not merely operational resources, but valuable assets whose growth and motivation directly influence the sustainability of the organization.

In contemporary business contexts, the performance of employees is directly linked to organizational competitiveness. Firms operate as complex entities that must simultaneously create value for shareholders, deliver quality products and services to customers, and ensure fair treatment of employees. High employee performance, characterized by innovation, productivity, and customer satisfaction, becomes a decisive factor in securing a sustainable competitive advantage (Holimin et al., 2021). Consequently, investments in the development of performance management systems, including compensation mechanisms, are viewed as strategic imperatives rather than optional practices.

Among the numerous factors that influence individual performance, compensation occupies a central position. Compensation refers to the rewards, both financial and non-financial, that employees receive in exchange for their contributions to the organization (Mujanah, 2019; Marwansyah, 2010). In essence, compensation represents both a recognition of employee effort and a motivational driver that encourages individuals to strive for higher levels of achievement. Financial compensation typically includes direct rewards such as wages, salaries, commissions, bonuses, and allowances, as well as indirect benefits such as insurance, retirement funds, and paid leave (Musyafi et al., 2016). Non-financial compensation, on the other hand, encompasses elements such as recognition, career development opportunities, supportive leadership, and a positive work environment (Andreani et al., 2020).

A substantial body of literature supports the notion that appropriate compensation significantly enhances employee performance. Adequate financial rewards not only ensure the fulfillment of employees' basic needs but also foster a sense of security and satisfaction that translates into higher motivation and productivity (Sandora & Ramadhan, 2021; Purba, 2021). Conversely, insufficient or inequitable compensation often leads to dissatisfaction, reduced motivation, and ultimately a decline in performance. For example, studies have demonstrated that employees who perceive their compensation as fair and aligned with their contributions exhibit greater organizational commitment, lower turnover intentions, and improved performance outcomes (Musyafi et al., 2016; Fredriksz, 2017).

Equally important is the role of non-financial compensation. Although less tangible, recognition, career advancement opportunities, and supportive working conditions exert profound psychological impacts on employees. Recognition in the form of praise or awards validates employees' efforts and strengthens their intrinsic motivation. Career development opportunities, such as training programs and promotions, signal the organization's investment in employee growth, thereby fostering loyalty and long-term commitment. A positive organizational climate, characterized by trust, fairness, and inclusivity, further enhances job satisfaction and performance (Jainab et al., 2021). Scholars have argued that non-financial rewards may, in many cases, prove more sustainable than financial incentives because they address deeper psychological needs such as self-actualization, belonging, and esteem (Andreani et al., 2020).

Interestingly, the relationship between compensation and performance is not purely linear or unidirectional. Compensation schemes can also act as mediating mechanisms between performance appraisal and employee behavior. Research findings suggest that when employees receive compensation that is perceived as fair and aligned with performance evaluations, they are more likely to accept feedback, set higher personal goals, and exhibit improved performance (Ardiansyah & Hasmawaty, 2021; Arifudin et al., 2020). In this sense, compensation serves as a bridge that translates organizational evaluations into individual behavioral outcomes. Without effective compensation practices, performance appraisal may fail to achieve its intended motivational impact (Handayani, 2013).

However, designing and implementing an effective compensation system presents significant challenges for organizations. Financial rewards must strike a balance between competitiveness and sustainability. Overly generous compensation packages may burden organizational finances, while inadequate packages risk demotivating employees and increasing turnover. Similarly, non-financial rewards require careful consideration of organizational culture and employee preferences. What constitutes recognition in one cultural or organizational context may be perceived differently in another (Maulina, 2019). Therefore, organizations must adopt a holistic and context-sensitive approach when developing compensation strategies.

The urgency of this issue is amplified in today's highly competitive and dynamic business environment. Globalization, technological advancements, and changing workforce demographics have increased the complexity of managing human resources. Employees are becoming more diverse in their needs, expectations, and motivations. Millennials and Generation Z, for instance, often place higher value on non-financial aspects such as meaningful work, flexibility, and work-life balance, compared to previous generations (Mabaso, 2025; Poynton, 2020; Oliveira et al., 2026). At the same time, financial compensation remains a critical determinant of attraction and retention in labor markets (Silaen et al., 2021). Balancing these diverse demands requires organizations to rethink traditional compensation frameworks and adopt more flexible, integrated, and evidence-based approaches.

In Indonesia, as in many other emerging economies, compensation practices are particularly relevant due to evolving labor market conditions and heightened organizational competition. Organizations across industries face the dual challenge of attracting skilled talent and retaining high-performing employees in the face of limited resources (Kusuma & Sentosa, 2024; Jie & Mulyono, 2024). The cultural emphasis on both material security and interpersonal harmony further underscores the importance of integrating financial and non-financial rewards into compensation systems (Lavanya & Khizerulla, 2024). Studies conducted in Indonesian organizational contexts have highlighted the significant influence of both monetary and non-monetary compensation on employee motivation, performance, and retention, thus reaffirming the global relevance of these findings while also reflecting local cultural nuances (Gunawan et al., 2025; Susilo & Muhardono, 2021).

This study seeks to critically examine the dual dimensions of compensation—financial and non-financial—and their respective impacts on employee performance. By adopting a qualitative, literature-based approach, the research aims to synthesize existing theoretical and empirical insights into a comprehensive understanding of compensation's role in shaping performance outcomes. The inquiry is guided by the recognition that compensation is not merely a transactional arrangement, but a strategic lever that, if designed thoughtfully, can foster organizational resilience, innovation, and sustainable competitive advantage.

Specifically, the study addresses three interrelated questions: (1) What is the impact of current monetary compensation schemes on employee performance? (2) What is the impact of current non-monetary compensation schemes on employee performance? (3) Which compensation approach—monetary or non-monetary—is more effective in enhancing long-term organizational performance? Through these guiding questions, the research aspires to generate actionable insights for organizational leaders and policymakers seeking to optimize compensation strategies in increasingly complex environments.

The significance of this research lies not only in its contribution to academic discourse but also in its practical implications. For practitioners, understanding the nuanced effects of compensation provides a foundation for designing policies that attract, retain, and motivate employees while ensuring organizational sustainability. For scholars, the study enriches the theoretical understanding of compensation as both a motivator and a mediator in the performance management process. Ultimately, this research underscores the premise that employees should not only be "paid" but also "valued," reflecting the dual essence of compensation in contemporary organizations.

METHODS

This study adopts a qualitative approach using a literature study method to explore the relationship between compensation schemes and employee performance. A literature study was selected because it enables the researcher to systematically synthesize insights from existing academic works, thereby developing a comprehensive understanding of both theoretical and empirical perspectives on the topic. The method focuses on identifying, analysing, and integrating findings from prior research that discuss compensation—both financial and non-financial—and their effects on organizational and individual outcomes.

The research process began with the identification of relevant keywords such as "compensation schemes," "employee performance," "monetary rewards," "non-monetary rewards," and "human resource management." These keywords were used to conduct a comprehensive search across multiple academic databases, including Scopus, Google Scholar, and ProQuest, as well as national repositories and indexed journals. The selection criteria for literature were based on publication relevance, credibility of the sources, and their direct relation to the themes of compensation and performance. Both international and Indonesian studies were included to ensure a balanced perspective and contextual richness.

Once the literature was collected, the researcher conducted a screening process by reviewing titles, abstracts, and full texts to ensure alignment with the research objectives. The selected works were then analysed through content analysis and thematic analysis. Content analysis was employed to identify recurring terms, concepts, and relationships in the literature, while thematic analysis was used to categorize the findings into major themes such as types of compensation, motivational effects, mediating roles, and organizational implications.

The synthesis stage involved comparing and contrasting findings across different studies to identify consistent patterns, contradictions, and gaps in the literature. This process helped establish a deeper understanding of how compensation schemes function as both financial incentives and psychological motivators. Moreover, the literature study approach enabled the researcher to highlight contextual factors—such as cultural values, organizational structure, and generational differences—that influence the effectiveness of compensation strategies.

Finally, the insights derived from the literature review were organized into a coherent narrative that addresses the research questions. Although the study does not generate primary data, it contributes to the field by providing a critical synthesis of existing knowledge, identifying research gaps, and offering practical implications for organizations in designing compensation strategies. The use of a literature study method ensures that the findings are grounded in evidence from multiple contexts, thereby strengthening their relevance and applicability for both academic and practical purposes.

RESULTS AND DISCUSSION

A. Financial Compensation and Employee Performance

Financial compensation has long been recognized as one of the most critical determinants of employee performance across industries and organizational contexts (Gomez-Mejia, et al., 2014). A vast body of literature suggests that compensation not only fulfils employees' basic economic needs but also serves as a tangible expression of organizational recognition and fairness (Akuffo-Aduamah, 2025). Salaries, wages, bonuses, and allowances are consistently reported as the primary extrinsic motivators that drive individuals to exert greater effort, align with organizational goals, and maintain higher productivity levels (Musyafi et al., 2016; Sandora & Ramadhan, 2021). In particular, direct financial rewards provide employees with measurable outcomes for their contributions, reinforcing the principle of reciprocity between employer and employee (Hansamali et al., 2024). Indirect financial rewards, such as health insurance, retirement plans, and paid leave, further strengthen the employment relationship by ensuring financial security and reducing uncertainties about the future (Mujanah, 2019).

The positive association between financial compensation and employee performance can be explained through several theoretical lenses. Expectancy Theory (Vroom, 1964), for example, emphasizes that employees are more likely to perform well if they believe their effort will lead to desired rewards, which are often financial in nature. Similarly, Equity Theory (Adams, 1965) posits that perceptions of fairness in compensation strongly influence motivation. Employees who perceive their pay as equitable compared to peers in similar roles demonstrate higher commitment and discretionary effort. Conversely, when compensation is deemed unfair or inadequate, feelings of inequity emerge, leading to dissatisfaction, reduced motivation, and in some cases, turnover intentions (Purba, 2021). Such findings highlight the central role of financial compensation not merely as a transactional mechanism but as a signal of organizational justice.

Empirical studies reinforce these theoretical perspectives. Fredriksz (2017) found that employees experiencing compensation gaps or perceiving inequitable pay structures reported higher levels of dissatisfaction, which translated into lower performance levels. Similarly, Sandora and Ramadhan (2021) identified a strong correlation between performance-based incentives and productivity outcomes, particularly in sales-driven environments where commissions directly reward individual contributions. In service sectors, where performance is often linked to customer satisfaction, financial bonuses tied to measurable outcomes have been shown to motivate employees to deliver higher-quality interactions. This demonstrates that financial compensation systems tailored to the nature of work can significantly influence performance outcomes.

However, the literature also suggests that the effectiveness of financial compensation is contingent on its structure and alignment with organizational objectives. For instance, performance-based pay systems, such as commissions or profit-sharing, can create strong incentives for employees to achieve measurable goals (Bartol, 2023). Yet, if these systems are poorly designed, they may encourage short-termism, unhealthy competition, or even unethical behavior aimed at maximizing rewards (Handayani, 2013). Thus, while financial incentives are powerful motivators, they require careful calibration to avoid unintended consequences that could harm long-term organizational performance (Franco-Santos & Otley, 2018; Ordóñez et al., 2009).

Another critical aspect emerging from the literature is the sustainability of financial compensation as a performance driver. While salary increases and bonuses can yield immediate improvements in productivity, several studies note that the motivational effect may plateau over time. Handayani (2013) observed that the impact of financial rewards tends to diminish once employees adjust to their new income level, a phenomenon often referred to as the "hedonic treadmill" in motivation research. This implies that organizations relying solely on continuous financial increments may face diminishing returns, both in terms of performance outcomes and financial sustainability (Lo & Liao, 2021). For this reason, many scholars advocate for compensation strategies that are not only competitive but also strategically integrated with organizational performance metrics (Akuffo-Aduamah, 2025).

The role of perceived fairness in financial compensation deserves particular emphasis. Employees evaluate not only the absolute value of their compensation but also how it compares to industry standards, peers within the same organization, and the workload they carry. Mujanah (2019) stresses that indirect financial benefits, such as health coverage and retirement contributions, can mitigate perceptions of inequity by enhancing the overall value of the compensation package. When employees perceive their financial rewards as fair and aligned with their contributions, they are more likely to demonstrate loyalty and exert discretionary effort that goes beyond minimum job requirements (Elrayah & Semlali, 2023; Liu & Liu, 2022). On the other hand, when compensation structures are opaque or inconsistently applied, distrust may develop, undermining both individual and collective performance (Hubbart, 2024).

The importance of financial security also emerges strongly in the literature. Indirect financial benefits, while often overlooked in discussions of motivation, play a vital role in sustaining long-term employee commitment. Health insurance and retirement plans, for example, reduce financial anxieties and allow employees to focus more fully on their work (Ugwu & Idemudia, 2023). Paid leave ensures employees have the financial flexibility to rest and recover without jeopardizing their income (Writing Committee et al., 2022). These benefits, though indirect, significantly enhance job satisfaction and reinforce the psychological contract between employer and employee (Mujanah, 2019). By addressing employees' broader financial well-being, organizations can cultivate an environment conducive to consistent and sustained performance.

Despite the clear advantages, financial compensation is not without risks. Overemphasis on financial rewards can reduce work relationships to purely transactional exchanges, where employees engage only to the extent that monetary benefits are offered (Bouchrika, 2025). Such dynamics may erode intrinsic motivation and weaken long-term engagement with the organization. Furthermore, heavy reliance on financial incentives can create vulnerability during economic downturns, when organizations may be unable to maintain high levels of compensation (Salisbury et al., 2023). In these circumstances, employees accustomed to generous rewards may experience heightened dissatisfaction when benefits are reduced, leading to performance declines or even attrition. Therefore, while financial compensation remains indispensable, it must be managed strategically to avoid fostering dependency or unrealistic expectations.

In practice, organizations must design financial compensation systems that balance competitiveness, equity, and sustainability. Competitive compensation ensures that organizations can attract and retain top talent in the labour market. Equity ensures that employees perceive their rewards as fair relative to their peers and workload. Sustainability requires that compensation systems are financially viable for the organization in the long run, avoiding scenarios where short-term gains are offset by long-term financial burdens. Integrating these principles, organizations can maximize the positive effects of financial compensation on employee performance while minimizing potential drawbacks.

From a managerial perspective, the findings from the literature emphasize the necessity of adopting a strategic approach to financial compensation. It is not sufficient to simply raise salaries or distribute bonuses without a clear link to performance outcomes. Compensation policies should be transparent, aligned with organizational objectives, and communicated effectively to employees. Moreover, managers should regularly review compensation structures to ensure alignment with market conditions and evolving employee expectations. In doing so, organizations can leverage financial compensation as a powerful tool for enhancing performance while fostering trust, fairness, and long-term commitment among employees.

B. Non-Financial Compensation and Employee Performance

Non-financial compensation represents a critical dimension of human resource practices that directly influences employee performance, particularly by addressing psychological, social, and intrinsic needs. Unlike financial rewards, which primarily fulfil economic expectations, non-financial rewards emphasize recognition, development, and workplace quality. Research has consistently shown that employees who feel valued, supported, and provided with opportunities for growth demonstrate higher levels of job satisfaction, motivation, and organizational commitment (Andreani, et al., 2020; Jainab, et al., 2021). These factors, in turn, enhance productivity and reduce the risk of turnover. Thus, non-financial compensation emerges not as a supplementary tool but as a central mechanism in sustaining long-term employee engagement.

Recognition has been identified as one of the most powerful non-financial rewards. Employees who receive verbal praise, awards, or symbolic acknowledgments of their contributions often perceive these gestures as validation of their worth within the organization. Yuliansyah et al. (2016) argue that recognition nurtures intrinsic motivation by reinforcing the psychological need for esteem and self-worth. Unlike monetary rewards, which may lose their motivational value over time, recognition creates a lasting impression that employees' contributions are meaningful (Ramya & Vanithamani, 2023). As a result, employees who feel appreciated are more likely to exceed performance expectations and demonstrate discretionary behaviors such as helping colleagues or innovating processes.

Career development opportunities also play a significant role in non-financial compensation systems. Training programs, mentoring, and clear promotion pathways serve as signals that the organization is invested in employees' long-term growth (Mustafa & Lleshi, 2024). This sense of investment not only increases loyalty but also motivates employees to perform at higher levels in anticipation of future opportunities. Studies suggest that when organizations prioritize professional development, employees perceive a stronger alignment between personal aspirations and organizational goals, thereby strengthening commitment (Andreani et al., 2020). For example, access to continuous learning programs enhances employees' confidence in their skills, which translates into improved performance outcomes.

Supportive leadership constitutes another vital form of non-financial compensation. Leaders who provide guidance, feedback, and emotional support cultivate an environment of trust and psychological safety. Susilo and Muhardono (2021) demonstrate that employees under supportive supervision exhibit higher engagement, lower stress levels, and greater willingness to embrace organizational changes. Supportive leadership fosters a relational contract that extends beyond financial exchange, reinforcing employees' sense of belonging and loyalty. Furthermore, fair treatment by leaders reduces perceptions of organizational injustice, thereby minimizing conflicts and dissatisfaction (Chaprana & Palo, 2025). In this sense, leadership behaviors themselves function as a form of non-financial reward with direct implications for performance.

A conducive work environment also emerges as a fundamental aspect of non-financial compensation. Organizational climate, workplace facilities, and interpersonal relationships collectively shape the day-to-day experiences of employees. A positive work environment not only facilitates task completion but also influences employees' emotional well-being. Literature suggests that employees working in environments characterized by collaboration, respect, and fairness tend to be more productive and exhibit lower turnover intentions (Jainab et al., 2021). Conversely, toxic environments marked by favouritism or lack of communication undermine trust and motivation, leading to performance decline (Sulaeman et al., 2024). Thus, non-financial rewards embedded within the work environment are integral to sustaining employee performance.

Importantly, non-financial compensation appeals to higher-order needs that are not easily satisfied through monetary rewards. Drawing on Maslow's hierarchy of needs, Andreani et al. (2020) emphasize that recognition, development, and belonging fulfil psychological and self-actualization needs, which often drive long-term commitment more effectively than financial incentives. These intrinsic motivators provide employees with a sense of purpose and identity within the organization. When employees perceive that their roles contribute to broader organizational goals, they are more likely to engage fully in their work, even without immediate monetary compensation (Saks, et al., 2022). This illustrates the sustainability of non-financial rewards, as they resonate with deeper human aspirations beyond economic gain.

Nevertheless, the design and implementation of non-financial compensation present unique challenges. Unlike financial rewards, which are quantifiable and standardized, non-financial rewards are highly subjective. What one employee considers meaningful recognition may be perceived as inadequate by another. Similarly, cultural contexts significantly influence how non-financial compensation is interpreted. In collectivist cultures, for example, group recognition may be more motivating, while in individualist cultures, personal acknowledgment may hold greater value. Susilo and Muhardono (2021) note that failure to account for these differences can limit the effectiveness of non-financial rewards, highlighting the importance of tailoring compensation strategies to specific organizational and cultural contexts.

Another limitation is the difficulty of measuring the direct impact of non-financial compensation on performance. While correlations are evident, the causal pathways are often complex and mediated by psychological factors such as satisfaction, commitment, and motivation. For instance, providing career development opportunities may not yield immediate performance improvements but can have significant long-term effects on retention and employee engagement (Ng et al., 2024). Similarly, recognition may not directly increase output but fosters a culture of appreciation that indirectly enhances productivity. These complexities underscore the need for organizations to adopt holistic approaches that integrate both non-financial and financial rewards, rather than relying on either in isolation.

Despite these challenges, the strategic benefits of non-financial compensation are evident. Organizations that effectively implement recognition programs, provide professional development, and maintain supportive environments not only improve performance but also reduce costs associated with turnover and absenteeism. Moreover, non-financial rewards are often more cost-effective than monetary incentives, making them an attractive option for organizations with limited financial resources. By leveraging intrinsic motivators, organizations can sustain high levels of performance without incurring unsustainable financial burdens.

From a managerial perspective, the findings highlight the necessity of viewing non-financial compensation as an intentional and structured component of human resource strategies. Managers should not underestimate the value of simple yet consistent recognition practices, nor should they neglect the importance of providing developmental pathways. Creating an inclusive and supportive environment should be prioritized, as it enhances not only individual performance but also team cohesion and organizational resilience. Transparency in recognition processes and fairness in promotion opportunities further strengthen trust and credibility, ensuring that non-financial rewards achieve their intended effects.

C. Financial Vs Non-Financial Compensation on Employee Performance

The debate over whether financial or non-financial compensation has a stronger influence on employee performance has attracted significant scholarly and managerial attention. Both forms of compensation are undeniably important, but their relative weight in driving employee outcomes varies across contexts, job types, and individual preferences. Financial compensation provides tangible, extrinsic incentives, while non-financial compensation appeals to intrinsic motivations and long-term psychological satisfaction (Islam, 2025). The challenge lies in determining which scheme exerts greater influence on employee performance and under what circumstances. Proponents of financial compensation argue that monetary rewards are the most direct and universally relevant form of motivation. Compensation in the form of salaries, bonuses, and allowances satisfies employees' basic economic needs, which must be met before higher-order psychological needs can become motivational drivers (Anusi & Mutambara, 2024), as explained by Maslow's hierarchy of needs. Empirical studies show that financial rewards significantly affect productivity, particularly in performance-driven sectors like sales, manufacturing, and finance (Musyafi et al., 2016; Sandora & Ramadhan, 2021). In such environments, the direct linkage between measurable outcomes and monetary rewards enhances performance by creating clear, extrinsic goals. Moreover, financial compensation plays a decisive role in talent attraction and retention. Research by Purba (2021) emphasizes that employees who perceive their financial rewards as equitable demonstrate higher commitment and reduced turnover intentions. From a practical perspective, organizations that fail to offer competitive financial packages risk losing high-performing employees to competitors. Thus, in contexts where economic security and external competitiveness are paramount, financial compensation often emerges as the stronger determinant of performance.

In contrast, advocates of non-financial compensation argue that while financial rewards are necessary, they are insufficient to sustain long-term performance. Once employees' basic financial expectations are met, non-financial rewards such as recognition, career growth, and a supportive work environment become more influential. Herzberg's two-factor theory reinforces this perspective, positing that financial incentives (hygiene factors) prevent dissatisfaction but do not necessarily generate lasting motivation. Instead, motivators such as achievement, recognition, and personal growth play a greater role in sustaining high performance. Studies support this argument, showing that non-financial rewards have a more enduring effect on employee engagement and discretionary effort. Yuliansyah et al., (2016) demonstrate that recognition significantly boosts intrinsic motivation, leading employees to exceed expectations. Similarly, Andreani et al., (2020) highlight how career development opportunities enhance employee loyalty and performance more effectively than financial increments. In knowledge-intensive or creative industries, where innovation and intrinsic engagement are critical, non-financial compensation is often the stronger driver of sustainable performance.

A growing body of literature suggests that while financial compensation may have a stronger impact on short-term performance, non-financial compensation exerts greater influence in the long term. Fredriksz (2017) reports that employees who perceive inadequate financial compensation exhibit dissatisfaction and reduced productivity, but the motivational boost from monetary incentives tends to fade as employees adjust to higher pay. In contrast, recognition and supportive leadership consistently contribute to long-term job satisfaction and sustained performance (Susilo & Muhardono, 2021). Meta-analytical evidence further suggests that the effectiveness of each compensation scheme is contingent upon context. For example, financial compensation tends to dominate in environments characterized by high employee turnover, competitive labor markets, or jobs with easily quantifiable outputs (MacKay et al., 2024). Conversely, non-financial rewards dominate in contexts requiring high levels of creativity, collaboration, or emotional engagement. This indicates that neither compensation scheme can universally be deemed superior, but rather their effectiveness must be judged relative to situational variables.

If one were to generalize, financial compensation appears to hold more immediate influence, while non-financial compensation exerts deeper and more sustainable effects. Financial rewards are critical in meeting employees' baseline needs and ensuring fairness, without which performance inevitably suffers. However, once financial adequacy is achieved, non-financial rewards often become the stronger determinant of performance by fostering commitment, intrinsic motivation, and long-term engagement. This is particularly evident in generational studies. Younger generations in the workforce, such as Millennials and Generation Z, frequently prioritize purpose, personal development, and work-life balance over financial rewards. Jainab et al., (2021) found that employees from younger cohorts reported greater satisfaction and performance improvements when non-financial rewards, such as recognition and supportive leadership, were emphasized. Older generations, by contrast, often place higher value on financial security, suggesting that the relative influence of compensation schemes is also mediated by demographic factors.

The question of which scheme matters more may ultimately be less useful than recognizing their complementarities. Financial compensation ensures economic security and fairness, establishing a baseline for performance. Non-financial compensation, however, provides the motivational depth needed to sustain engagement and drive innovation. The strongest performance outcomes emerge not from privileging one scheme over the other but from integrating both within a total rewards framework. Organizations that rely too heavily on financial incentives may experience diminishing returns and foster transactional work cultures. On the other hand, organizations that neglect financial competitiveness in favour of non-financial strategies risk employee dissatisfaction and attrition. The evidence therefore points to the necessity of hybrid compensation systems that combine fair financial rewards with robust non-financial recognition and development opportunities.

The comparative literature on financial and non-financial compensation highlights a nuanced answer to the question of which scheme is more influential on employee performance. Financial compensation holds stronger sway in the short term and in contexts where economic security and measurable outputs dominate. Non-financial compensation, however, emerges as the stronger long-term driver of engagement, intrinsic motivation, and sustainable performance. Rather than framing the debate as an either-or choice, the evidence supports a both-and approach. Organizations that integrate financial and non-financial compensation into coherent, context-sensitive systems are best positioned to maximize performance and maintain competitive advantage.

D. Managerial implications

Managerial implications derived from the comparative analysis of financial and non-financial compensation highlight the importance of adopting a holistic and balanced approach to reward systems. For managers, ensuring that financial compensation remains competitive and fair is a non-negotiable foundation. Employees who feel underpaid or perceive inequity in their financial rewards are unlikely to perform at their best, regardless of how strong non-financial incentives may be. Thus, organizations must regularly benchmark salaries and benefits against industry standards to secure talent and maintain baseline motivation. At the same time, managers should recognize that financial rewards alone are insufficient to sustain long-term engagement. Designing systems that integrate recognition programs, career development opportunities, and supportive leadership practices will help address employees' intrinsic needs, ensuring deeper commitment and higher discretionary effort.

Another key implication is that managers should tailor compensation strategies to the demographic composition and cultural context of their workforce. Younger employees may respond more strongly to non-financial rewards such as flexible work arrangements, mentorship, and learning opportunities, while older employees may prioritize financial stability (Saraiva & Nogueiro, 2025). In global or diverse organizations, cultural expectations may also shape how employees perceive fairness and recognition, making it necessary to adapt reward systems accordingly. This tailoring ensures that compensation schemes are not only competitive but also meaningful to the individuals they aim to motivate.

Moreover, managers need to be aware of the potential risks of overemphasizing financial incentives, which may encourage transactional mindsets or even opportunistic behaviours. By balancing financial rewards with non-financial recognition and developmental opportunities, managers can foster organizational cultures that value both achievement and collaboration. Regular feedback, open communication, and visible appreciation of employee contributions can create a positive climate that amplifies the effects of financial compensation. Ultimately, the managerial challenge is not choosing between financial and non-financial compensation but finding the right integration that aligns with organizational goals, industry dynamics, and workforce characteristics. Organizations that successfully combine these approaches are more likely to enhance performance, strengthen retention, and achieve sustainable competitive advantage.

CONCLUSIONS AND SUGGESTIONS

The findings of this literature-based study emphasize that both financial and non-financial compensation schemes play integral roles in shaping employee performance, albeit with different strengths and time horizons. Financial compensation ensures fairness, economic security, and serves as a powerful short-term motivator, especially in competitive industries or roles with quantifiable outputs. Non-financial compensation, however, provides the depth of intrinsic motivation necessary for sustaining long-term engagement, creativity, and organizational loyalty. It becomes evident that rather than privileging one over the other, organizations must integrate financial and non-financial rewards into coherent and context-sensitive systems to achieve optimal performance outcomes. A balanced compensation strategy not only mitigates the limitations inherent in relying solely on one form of reward but also creates synergies that strengthen employee commitment and organizational resilience.

Based on these insights, organizations are advised to regularly evaluate and benchmark their financial compensation schemes to ensure equity and competitiveness, while simultaneously investing in non-financial initiatives such as recognition programs, career development, supportive leadership, and positive work environments. Managers should also tailor reward strategies to the demographic and cultural characteristics of their workforce, recognizing that generational differences and job contexts influence how employees value compensation. Such alignment can prevent dissatisfaction, reduce turnover, and foster long-term performance sustainability. For practitioners, the practical implication lies in adopting a total rewards framework that views financial and non-financial compensation not as substitutes but as complementary levers of employee motivation and productivity.

Future research opportunities remain abundant in this domain. First, empirical studies could further examine the interaction effects of financial and non-financial compensation when combined, exploring whether certain mixes yield stronger outcomes in specific organizational contexts. Second, longitudinal studies are needed to assess the sustainability of performance improvements under different compensation schemes, particularly in distinguishing short-term versus long-term impacts. Third, cross-cultural and generational analyses could shed light on how compensation preferences vary across diverse employee populations, helping global organizations tailor strategies more effectively. Finally, the rapid rise of remote and hybrid work environments calls for new inquiries into how compensation schemes should be adapted to maintain fairness, motivation, and engagement in digital workplaces. Addressing these research gaps will not only enrich academic discourse but also provide actionable insights for organizations striving to enhance employee performance in an evolving world of work.

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